

PHILANTHROPY

It Doesn't Just Happen

Guidelines, supports and the profession of nonprofit management

The scope of philanthropic activities performed by people in the United States is impressive in its diversity. Certainly, informal and spontaneous volunteer service and philanthropy continue to happen at a heartening rate. Nevertheless, philanthropy as a field of endeavor has developed to the point that many charities and foundations are managed by professional staff members trained in the special disciplines related to this work.

- Attracting, managing, training and thanking volunteers are tasks handled by administrators of volunteer services who may be members of special professional organizations or have specialized certifications or college degrees to support this work. According to *Nonprofit Management Education—Current Offerings in University-Based Programs*, in 2002 some 255 colleges and universities offered courses in nonprofit management, as well as graduate or undergraduate degree programs.

- The art and science of transferring money to charitable causes through grants has also become quite sophisticated for both the applicant organization that prepares grant proposals, receives funding, and prepares reports on its activities, and for the foundation that receives and judges the applicant proposals, monitors grants, and

ultimately reports back to its board of directors, donors, or other interested parties.

- Donors and charities alike have become very interested in the way that charities handle their funds and programs, and especially in the results they produce and the care with which they manage resources. Oversight groups rate charities based on their results and the percentage of funds that actually reach the groups being served, compared to the percentage used to pay for administrative overhead expenses. Donors choose the charities they support in part based on these ratings.

Naturally, methods of reporting are also very important to all the above audiences.

In many ways, the field of nonprofit management has become self-policing. Foundations and charities prepare financial and other reports on their results and administrative practices. Organizations such as the Council on Foundations and the Center for Foundations then use this information to prepare comprehensive reports. And other groups rate charities according to their performance.

The U.S. government, principally through the Internal Revenue Service (IRS)—the

government's tax collector—also plays a part in nonprofit management.

Tax-exempt status: A nonprofit group or individual can take steps to qualify for a special government designation known as 501(c)(3). This designation means that the charity has undergone a government screening process and been granted tax-exempt status. A

Salvation Army Lt. Colonel Don Mowery accepts a credit card donation in Phoenix, Arizona. The U.S. system of income tax credits for gifts to bona fide charities encourages donations.





Illustration by HEVANT BHATNAGAR

Organizations that Support Charitable Groups

The Council on Foundations is a membership organization of more than 2,000 grant-making foundations and giving programs worldwide. The council provides leadership expertise, legal services and networking opportunities—among other services—to its members and to the general public. For further information: <http://www.cof.org/index.htm>

The mission of the **Foundation Center** is to strengthen the nonprofit sector by advancing knowledge about U.S. philanthropy. To achieve this mission, the center collects, organizes and communicates information on U.S. philanthropy, conducts and facilitates research on trends in the field, provides education and training on the grant-seeking process, and ensures public access to information and services through its Web site, print and electronic publications, five library/learning centers, and a national network of “cooperating collections.” Founded in 1956, the center is dedicated to serving grant-seekers, grant-makers, researchers, policymakers, the media and the general public. Find out more at <http://www.fdncenter.org/>

The United States is home to 60,000 smaller foundations, those led entirely by volunteer boards or operated by just a few staff. These foundations account for half of the country’s total foundation grant dollars, providing essential financial support in thousands of communities across the country. **The Association of Small Foundations** was started 10 years ago and has grown rapidly to become a key membership association of philanthropists in the country. Through the association, members find commonsense advice to support their philanthropic activities. For further information: <http://www.smallfoundations.org/>

The National Council of Nonprofit Associations is a network of state and regional nonprofit associations serving more than 22,000 members in 45 U.S. states and the District of Columbia. The council links local organizations to a national audience through state associations and helps small and mid-sized nonprofits manage and lead more effectively, collaborate and exchange solutions, engage in critical policy issues affecting the sector, and achieve greater impact in their communities. Find out more at <http://www.ncna.org/>

Indiana University Center on Philanthropy (located on the campus of Indiana University-Purdue University at Indianapolis) offers master’s degree programs in nonprofit management and philanthropy studies, as well as a doctoral program in philanthropy studies. The center also publishes the journal *Philanthropy Matters*. In 2005, the center joined forces with the California-based The Foundation Incubator to create the Philanthropy Incubator. They provide support for new foundations and for new philanthropists moving into the nonprofit world. The Philanthropy Center, with offices in California and Indiana, provides a wide range of training and education services in support of the field of philanthropy. Further information is available at <http://www.philanthropy.iupui.edu/index.html>

Milano New School for Management and Urban Policy is part of The New School—a university in New York City. Milano offers a nonprofit management degree program with a focus on five critical areas of study: the nonprofit sector (history, roles and current contexts); analytical thinking skills; management and leadership in the nonprofit sector; funding of nonprofit organizations and management of resources in the nonprofit sector. For further information: <http://www.newschool.edu/milano/> □

primary benefit of being tax exempt under 501(c)(3) is that the organization may accept contributions and donations that are tax deductible to the donor. Further, the organization is exempt from federal and state corporate taxes, and it may apply for grants and other public or private allocations open only to IRS-recognized organizations. This designation also increases the organization’s legitimacy in the eyes of possible donors and others.

Referring to the process of becoming a 501(c)(3) organization, the head of a new nonprofit describes the experience as “painful but valuable.” In completing the extensive application packet, her group had to include its by-laws and the names of the organization’s officers. They had to very specifically describe the charitable work in which they were engaged. Finally, they had to submit a tax report on the money they had received. The application process involved extensive work by an attorney and an accountant.

A handbook designed to guide applicants through this process explains the benefit of the process this way: Many charities fail; they do not attract the funds needed to support the causes they have identified. Going through the extensive application process forces a charity to plan, prioritize, define and weigh options. In so doing, the resultant decisions not only help them qualify for a charitable designation, they also help ensure long-term success.

The head of the new charity agrees. She says that because of the designation process, she and her colleagues had to decide whether or not to incorporate, which city or state jurisdiction to register in, whether or not they would be a member organization, and what the scope and limitations of their work would be. A year later, the group finds this homework has paid off. It makes promoting the group’s cause easier. Potential donors are relieved to learn the group is a 501(c)(3) charity, and the definitions help donors understand the group’s mission and know it is something that they support.

Tax credits for donors: The IRS has an extensive system of allowances that permits taxpayers, whether individuals or corporations, to report the amount of gifts they have given to bona fide charities (for instance, those with a 501(c)(3) designation), and to be given a full or partial credit on this amount when figuring their annual income tax. This system encourages donations. It also helps track transfers of funds. Volunteers can even deduct amounts spent on transportation to a volunteer site, as well as some other service-related costs. As intended, the tax credits do encourage philanthropy, but most experts agree that, generally, other factors are more important in a donor’s or volunteer’s decision to support a cause. □

From the Bureau of International Information Programs, U.S. Department of State.